

1 21.56 if AT&T uses other operators.

2 A [Ms. Winegard]

3 A [Mr. Scheye] No, it's--

4 [Short Pause]

5 Q [Comm. Scott] Clarify it one more time]

6 [Laughter]

7
8 A [Mr. Scheye] 21.56, the higher percentage if AT&T uses its own
9 operators; the 16 percent if AT&T used BellSouth operators.

10 A [Mr. Carroll] That's correct. And we do plan to use our own
11 operators because it was so ordered in Tennessee.

12 Q [Comm. Scott] Does that complete your answer?

13 A [Ms. Winegard] Yes. Thank you very much.

14 Q [Comm. Scott] Thank you.

15 COMM. SCOTT: Thank you, Mr. Chairman.

16 CHAIRMAN BUTLER: Thank you, Mr. Scott.

17 At this time, we're going to break for
18 lunch and come back at 2:30.

19
20 [WHEREUPON, at approximately 12:55 P.M., the
21 Hearing was recessed for lunch; to be resumed at 2:30 P.M.]
22
23
24
25

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COLUMBIA, SOUTH CAROLINA

HEARING #9585

FEBRUARY 4, 1997

2:30 P. M.

DOCKET NO. 96-358-C: PETITION OF AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC., FOR ARBITRATION WITH BELL SOUTH TELECOMMUNICATIONS, INC., PURSUANT TO THE TELECOMMUNICATIONS ACT OF 1996.

HEARING BEFORE: CHAIRMAN GUY BUTLER, PRESIDING; VICE CHAIRMAN PHILIP T. BRADLEY; AND COMMISSIONERS RUDOLPH MITCHELL, CECIL A. BOWERS, WARREN D. ARTHUR, IV, WILLIAM "BILL" SAUNDERS, AND C. DUKES SCOTT.

STAFF: GARY E. WALSH, DEPUTY EXECUTIVE DIRECTOR; D. WAYNE BURDETT, MANAGER, AND JAMES M. MCDANIEL, WILLIAM O. RICHARDSON AND DAVID S. LACOSTE, UTILITIES DEPARTMENT; DR. R. GLENN RHYNE, MANAGER, AND DR. JAMES E. SPEARMAN, RESEARCH DEPARTMENT; CATHERINE D. TAYLOR, ESQ., STAFF COUNSEL; AND YVONNE T. GREY, HEARING REPORTER.

APPEARANCES: FRANCIS P. MOOD, ESQ., STEVE A. MATTHEWS, ESQ., AND KENNETH P. MCNEELY, ESQ., REPRESENTING AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC., PETITIONER.

WILLIAM F. AUSTIN, ESQ., HARRY M. LIGHTSEY, III, ESQ., WILLIAM ELLENBERG, ESQ., AND ED RANKIN, ESQ., REPRESENTING BELL SOUTH TELECOMMUNICATIONS, INC., RESPONDENT.

ELLIOTT F. ELAM, JR., ESQ., REPRESENTING THE CONSUMER ADVOCATE FOR THE STATE OF SOUTH CAROLINA, PARTICIPANT.

B. CRAIG COLLINS, ESQ., REPRESENTING THE SOUTH CAROLINA CABLE TELEVISION ASSOCIATION, PARTICIPANT.

PALMER FREEMAN, JR., ESQ., REPRESENTING BELL SOUTH ADVERTISING & PUBLISHING CORPORATION, PARTICIPANT.

TRANSCRIPT OF TESTIMONY AND PROCEEDINGS

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1 CHAIRMAN BUTLER: THE HEARING WILL
2 NOW COME TO ORDER.

3 WHEREUPON: THE AT&T PANEL OF
4 WITNESSES [JOSEPH P. GILLAN, DAVID L.
5 KASERMAN, RICHARD GUEPE, ART LERMA, JOHN
6 M. HAMMAN, WAYNE ELLISON, DON J. WOOD,
7 WILLIAM J. CARROLL, AND DEBORAH J.
8 WINEGARD] AND THE BELL SOUTH PANEL OF
9 WITNESSES [ALPHONSO J. VARNER, W. KEITH
10 MILNER, ROBERT C. SCHEYE, D. DAONNE
11 CALDWELL, STEVE G. PARSONS, AND WALTER
12 S. REID], HAVING BEEN PREVIOUSLY SWORN,
13 RESUME TESTIFYING AS FOLLOWS:

14 CHAIRMAN BUTLER: MS. TAYLOR.

15 MS. TAYLOR: THANK YOU, MR.
16 CHAIRMAN. I'M NOT SURE WHERE TO PICK
17 UP. I'M NOT SURE WHERE WE WERE. SO
18 LET'S JUST START FRESH ON SOMETHING MR.
19 VARNER MENTIONED BEFORE THE BREAK, AND
20 THAT'S ON THE ISSUE OF COSTS UNDER ISSUE
21 #23.

22 EXAMINATION OF PANEL

23 Q (MS. TAYLOR) I'LL START OUT WITH A QUESTION JUST FOR
24 THE BELL SOUTH PANEL. IS IT YOUR OPINION THAT THE

1 CONSIDERATION OR INCLUSION OF HISTORIC COSTS IS
2 APPROPRIATE UNDER THE ACT?

3 A (MR. SCHEYE) I THINK THE ISSUE OF HISTORIC COSTS IS
4 ONE, JUST TO SAY VERY BRIEFLY, THAT THE EIGHTH CIRCUIT
5 FOUND FLAWED WITH THE F.C.C.'S TELRIC METHODOLOGY. THEY
6 MADE TWO POINTS: THE TELRIC METHODOLOGY AS DEFINED WAS A
7 THEORETICAL NETWORK, NOT A REAL NETWORK, AND THAT HISTORIC
8 OR EMBEDDED COSTS WERE NOT REFLECTED. SO WE WOULD BELIEVE
9 THAT THEY NEED TO BE REFLECTED EITHER DIRECTLY IN THE COST
10 FOR THE INDIVIDUAL ELEMENTS, REFLECTED THROUGH UNIVERSAL
11 SERVICE OR SOME COMBINATION THEREOF.

12 Q (MS. TAYLOR) A MORE GENERAL QUESTION FOR BOTH PANELS
13 NOW: WHAT IS YOUR OPINION OF WHAT THE ACT AND THE F.C.C.
14 HAVE SAID ABOUT THE UNBUNDLED NETWORK ELEMENT RATES AND
15 THEIR BASIS ON COSTS? I'M LOOKING AT THE LANGUAGE "COST
16 PLUS A REASONABLE PROFIT", IF YOU HAVE A COMMENT ON THIS
17 ISSUE, AND WE'LL START WITH THE AT&T PANEL.

18 A (MS. WINEGARD) I'D LIKE TO START FIRST TO RESPOND TO
19 THAT STATEMENT JUST MADE BY MR. SCHEYE WITH RESPECT TO
20 WHAT THE EIGHTH CIRCUIT DID AND DID NOT DO. THE EIGHTH
21 CIRCUIT SOLELY STAYED THE PRICING PROVISION. IT MADE NO
22 SUBSTANTIVE DETERMINATION AS TO WHETHER THE TELRIC
23 METHODOLOGY USED BY THE F.C.C. WAS APPROPRIATE OR NOT
24 APPROPRIATE. IT WAS A PROCEDURAL STAY ONLY. THEY HAVE

1 TAKEN BRIEFS ON THE SUBSTANTIVE ARGUMENTS. THEY HAVE NOT
2 COME TO ANY CONCLUSION ON THE MERITS.

3 I THINK YOUR QUESTION REMAINED ON THE
4 APPROPRIATE COST TO USE UNDER BOTH THE ACT AND THE F.C.C.
5 METHODOLOGY WITH RESPECT TO PRICING THE UNBUNDLED NETWORK
6 ELEMENTS, AND I WILL START AND THEN PASS IT OFF TO OUR
7 EXPERTS TO CONCLUDE. THE ACT DOES SPECIFICALLY SAY THAT
8 THE NETWORK ELEMENTS SHOULD BE PRICED BASED ON COST WHICH
9 MAY INCLUDE A REASONABLE PROFIT. THAT PRICE SHOULD BE
10 BASED ON A FORWARD LOOKING ECONOMIC COST, AND THE REASON
11 FOR THAT IN A COMPETITIVE WORLD IS YOU WANT TO HAVE THE
12 PRICE THAT THE COMPETITOR PAYS TO BE EQUAL TO THE
13 INCUMBENT'S COST AND THAT WAY THERE IS A LEVEL PLAYING
14 FIELD BETWEEN THE INCUMBENT AND THE COMPETING CARRIER.
15 THE PRICE FOR THE ELEMENT IS THE SAME, AND THAT ALLOWS
16 COMPETITION TO DEVELOP, AND THAT IS WHAT IS PROVIDED FOR
17 BOTH IN THE ACT AND IN THE F.C.C.'S ORDER. AND I DO WANT
18 TO ADD WITH RESPECT TO THE F.C.C. PRICING PROVISIONS WHICH
19 WERE STAYED, THAT DOES NOT PROHIBIT THIS COMMISSION FROM
20 ADOPTING THOSE RATES AND USING THAT METHODOLOGY. YOU CAN
21 STILL COME TO YOUR CONCLUSION, AND WE BELIEVE YOU SHOULD,
22 THAT USING FORWARD LOOKING INCREMENTAL COST, LONG RUN
23 INCREMENTAL COST, IS THE APPROPRIATE METHODOLOGY AND THAT
24 IS THE APPROPRIATE WAY FOR COMPETITION TO DEVELOP HERE IN

1 SOUTH CAROLINA.

2 A (DR. KASERMAN) MS. WINEGARD CORRECTLY STATED THE
3 ECONOMIC PRINCIPLE INVOLVED IN THIS TO PUT THE NEW ENTRANT
4 AND THE INCUMBENT ON A LEVEL PLAYING FIELD TO ENCOURAGE
5 THE NEW ENTRANT TO MAKE EFFICIENT USE OF THE EXISTING
6 NETWORK. THIS BASIC OPINION OF USING FORWARD LOOKING
7 COSTS AS OPPOSED TO HISTORICAL OR EMBEDDED COSTS IS ONE
8 THAT IS WIDELY ACCEPTED IN THE ECONOMICS PROFESSION--NOT
9 UBIQUITOUSLY ACCEPTED, BUT WIDELY ACCEPTED. I HAVE IN
10 FRONT OF ME HERE A LETTER TO REED HUNDT SIGNED BY FIVE OF
11 THE FORMER DIRECTORS OF THE ECONOMIC POLICY OFFICE OF THE
12 ANTITRUST DIVISION OF THE JUSTICE DEPARTMENT--BRUCE OWEN,
13 LARRY WHITE, RICK WARREN-BOULTON, BOBBY WILLIG AND JANUSZ
14 ORDOVER, FIVE VERY PROMINENT ECONOMISTS. LET ME JUST READ
15 YOU BRIEFLY: "WHERE HISTORICAL COSTS EXCEED FORWARD-
16 LOOKING COSTS, TELRIC-BASED PRICING WILL STILL PRESERVE
17 THOSE INCENTIVES, WHEREAS THE USE OF HISTORICAL OR
18 EMBEDDED COSTS COULD RESULT IN TWO INEFFICIENCIES TENDING
19 TO SUSTAIN LOCAL MONOPOLIES, EVEN THOSE WITH OUTMODED
20 EQUIPMENT: FIRST, COMPETING PROVIDERS MIGHT HAVE TO PAY
21 MORE THAN A COMPETITIVE PRICE FOR NECESSARY INPUTS, AND
22 SECOND, THEY MIGHT HAVE TO PAY MORE THAN THE INCUMBENT
23 LOCAL EXCHANGE CARRIERS IMPLICITLY PAY FOR THESE SAME
24 INPUTS." SO I THINK THERE'S WIDESPREAD AGREEMENT AMONG

1 ECONOMISTS THAT YOU SHOULD LOOK AT FORWARD LOOKING COSTS,
2 NOT EMBEDDED COSTS.

3 A (MR. ELLISON) IF I COULD JUST ANSWER ONE OTHER PART OF
4 YOUR QUESTION, YOU HAD ASKED ABOUT THE F.C.C.'S VIEW OF
5 REASONABLE PROFIT. THE F.C.C. TELRIC METHODOLOGY INCLUDES
6 A CALCULATION OF A RETURN ON THE COMPANY'S INVESTMENTS TO
7 PROVIDE THE NETWORK ELEMENT. SO WHEN YOU LOOK AT A TELRIC
8 STUDY, INCLUDING THE STUDIES THAT BELLSOUTH HAS PRESENTED
9 IN THIS PROCEEDING, A VERY SIGNIFICANT PART OF THE COSTS
10 THAT THEY PRESENT TO YOU INCLUDE HIGHER COSTS FOR RETURN
11 ON THE INVESTMENTS REQUIRED TO PROVIDE THE NETWORK
12 ELEMENT, AND THE F.C.C. IN PARTICULAR FOUND THAT THAT
13 RETURN ON INVESTMENT WAS SUFFICIENT TO MEET THE
14 REQUIREMENT FOR A REASONABLE PROFIT.

15 A (MR. VARNER) I'D LIKE TO RESPOND JUST BRIEFLY.
16 LOOKING AT THE STANDARDS IN THE ACT, AND AS THEY SAY THAT
17 THE PRICES SHALL BE BASED ON COST--WELL, BASED ON THE COST
18 OF PROVIDING THE INTERCONNECTION OF NETWORK ELEMENT, NON-
19 DISCRIMINATORY AND MAY INCLUDE A REASONABLE PROFIT. I
20 WOULD AGREE WITH DR. KASERMAN THAT GENERALLY UTILIZING
21 LONG-RUN INCREMENTAL COST IS WIDELY HELD AS THE BASIS
22 AMONG ECONOMISTS AS A FLOOR FOR COSTS. I DON'T DEBATE
23 THAT LONG-RUN INCREMENTAL COST IS NOT A WIDELY HELD VIEW.
24 WHAT I AM DEBATING IS THE PURPOSE FOR WHICH IT'S BEING

1 USED OR BEING CHARACTERIZED HERE. NO ECONOMIST THAT I
2 KNOW OF HAS SET IT OUT AND ESTABLISHED IT AS A CEILING.
3 IT'S TYPICALLY DESCRIBED AS A FLOOR. NOW IF YOU'LL LOOK
4 AT THE ACT, IT DOES NOT STATE A SPECIFIC STANDARD FOR
5 COST. IT JUST SAYS BASED ON COST. IT DOESN'T SAY LONG-
6 RUN INCREMENTAL COST. IT DOESN'T SAY EMBEDDED COST. IT
7 DOESN'T STATE ANY PARTICULAR STANDARD WITH REGARD TO COST,
8 BUT IT DOES SAY BASED ON COST. SO GENERALLY WHAT THAT
9 WOULD MEAN TO ME IS THAT WHAT THEY'VE SET OUT IS, THEY
10 SAID, LOOK, THESE PRICES OUGHT TO AT LEAST COVER COST BY
11 WHATEVER THE APPROPRIATE STANDARD IS. THESE PRICES OUGHT
12 TO BE NO LOWER THAN COST. THEN IT GOES ON AND SAYS MAY
13 INCLUDE A REASONABLE PROFIT, AND I THINK THE CHOICE OF THE
14 WORD "MAY" IS VERY IMPORTANT AND THAT BELIES THE STATEMENT
15 OR ALLEGATION THAT SOMEHOW OR ANOTHER RETURN ON MONEY OR
16 COST OF MONEY IS PROFIT. THE COST OF MONEY IS NOT PROFIT.
17 THE COST OF MONEY IS A COST JUST LIKE ANY OTHER COST OR
18 THE COST OF ANY OTHER INPUT. WHEN WE GO OUT AND WE BUY
19 SOMETHING, WE HAVE TO GO OUT AND WE HAVE TO PURCHASE THE
20 MONEY IN ORDER TO DO THAT, AND IN ALL OF THE COST STUDIES
21 THAT THIS COMMISSION HAS SEEN AND BEEN SUBMITTED TO THE
22 F.C.C., THE COST OF MONEY IS INCLUDED AS A COST. PROFIT,
23 I THINK IN THIS CONTEXT, MEANS THAT YOU MAY HAVE A PRICE
24 ABOVE THE COST. YOU MAY SET A PRICE THAT INCLUDES A

1 PROFIT ABOVE THE FULL COST OF PROVIDING THESE ELEMENTS,
2 AND WHAT THAT GOES TO, I THINK, IS THE POINT THAT WAS MADE
3 EARLIER. THERE ARE HISTORICAL COSTS AND OTHER COSTS,
4 SHARED COSTS, COMMON COSTS OF THE FIRM THAT HAVE TO BE
5 RECOVERED. THEY HAVE TO BE RECOVERED IN THE PRICES THAT
6 THE FIRM CHARGES. THE ONLY WAY THEY'RE GOING TO BE
7 RECOVERED IS IF AN AMOUNT ABOVE THE COST OF THE ELEMENT IS
8 ESTABLISHED TO ALLOW RECOVERY ON SOME OF THESE OTHER
9 COSTS. SO, FIRST, YOU HAVE TO RECOVER THE FULL COST OF
10 THE FIRM BEFORE THERE'S EVEN A POSSIBILITY FOR PROFIT.
11 THE FACT THAT IT SAYS "MAY INCLUDE A REASONABLE PROFIT" I
12 THINK IS VERY INSTRUCTIVE. IF THEY HAD INTENDED THAT COST
13 OF MONEY BE TREATED AS A PROFIT, IT WOULD HAVE HAD TO SAY
14 "IT MUST INCLUDE A REASONABLE PROFIT" BECAUSE THERE'S NO
15 WAY I BELIEVE CONGRESS WOULD HAVE SET OUT A SET OF RULES
16 THAT MADE WHETHER OR NOT A FIRM COVERS ITS COST OF MONEY
17 AN OPTION TO BE ESTABLISHED. IT SAID "MAY", SO CLEARLY IT
18 INTENDED THAT YOU RECOVER THE FULL COST AND GIVE THE
19 POSSIBILITY OF AN OPTION OF CREATING A PROFIT ABOVE THE
20 COST.

21 A (MR. SCHEYE) JUST VERY BRIEFLY TO THE POINT OF LEVEL
22 PLAYING FIELD, I JUST WANT TO SAY THAT A PRACTICAL EXAMPLE
23 OF WHERE WE BELIEVE COMMON SENSE HAS TO COME INTO THIS
24 GAME AS WELL, THE COST STUDIES WE'VE SUBMITTED FOR A LOOP,

1 A TWO-WIRE BASIC LOOP, IS THIRTY DOLLARS AND CHANGE IN
2 THIS PROCEEDING. WE HAVE A TARIFF RATE THAT THIS
3 COMMISSION HAS APPROVED OF \$25 BASED ON THE COST STANDARDS
4 THAT THIS COMMISSION HAS USED IN THE PAST AND WE'RE
5 PROPOSING THAT AS THE TARIFF PRICE. IN ADDITION, WE HAVE
6 AN \$18 RATE THAT WE'RE PROPOSING, ONE SUBJECT TO A
7 TRUE-UP. SO, AGAIN, SLAVISH ADHERENCE TO ONE PARTICULAR
8 COSTING METHOD OR NOT CAN LEAD TO SOME VERY UNUSUAL
9 RESULTS. I THINK WE HAVE TO REMEMBER THAT IN ESSENCE
10 WE'RE TRYING TO GET COMPETITION ESTABLISHED, WE'RE TRYING
11 TO GET REASONABLE PRICES, SO WE HAVE DEVIATED FROM A
12 STRICT COST STANDARD. HERE IS ONE VERY GOOD EXAMPLE OF
13 IT. WE BELIEVE THAT MAKES SENSE GOING FORWARD. SO
14 WHETHER THERE'S COST METHODOLOGY A, B OR C, AGAIN SOME
15 PRACTICALITY HAS TO COME INTO ESTABLISHING THESE PRICES AT
16 LEAST TO GET STARTED. THANK YOU.

17 Q (MS. TAYLOR) I'LL PUT A QUESTION NOW TO BOTH OF THE
18 PARTIES REGARDING THE COMMON COSTS, AND I'D JUST BE
19 INTERESTED IN HEARING AND THE COMMISSION WOULD BE
20 INTERESTED IN HEARING YOUR OPINIONS ON OR POSITIONS
21 REGARDING THE COMMON COSTS AND THE CALCULATIONS THEREOF,
22 AND WE'LL BEGIN WITH THE BELL SOUTH PANEL.

23 A (MR. VARNER) DID YOU WANT BELL SOUTH TO GO FIRST?

24 Q (MS. TAYLOR) YES.

1 A (MR. VARNER) I THINK MS. CALDWELL PROBABLY IS IN THE
2 BEST POSITION TO RESPOND.

3 A (MS. CALDWELL) IN THE TELRIC STUDIES THAT WE HAVE FILED
4 BEFORE THIS COMMISSION, WE INCLUDE A COMMON COST
5 ALLOCATION FACTOR OF, AS I MENTIONED OR BELIEVE, OF 8.04
6 PERCENT. THAT FACTOR IS CALCULATED STARTING WITH--I'LL
7 BRIEFLY GO THROUGH THIS. WE STARTED WITH THE 1995 BOOKS
8 OF THE COMPANY, THAT GAVE US OUR EXPENSES AND INVESTMENTS.
9 THEN WE MADE AN ADJUSTMENT TO MAKE IT FORWARD LOOKING. WE
10 USED THE 11.25 PERCENT COST OF MONEY AND WE USED THREE
11 YEARS WORTH OF BUDGETED DATA, AND WE CONVERTED THE BOOKS
12 BASICALLY TO FORWARD LOOKING USING THAT INFORMATION.
13 THEN WHAT WE DID WAS TO LOOK AT THE CALCULATION OF ALL THE
14 DIRECT COSTS IN THE NETWORK ELEMENTS. WHEN YOU THINK
15 ABOUT THE LOOP AND THE SWITCH, THAT'S THE LARGEST
16 INVESTMENT BELLSOUTH IS GOING TO HAVE. SO WITH OUR
17 NETWORK ELEMENTS, YOU PICK UP THE MAJORITY OF THE DIRECT
18 COSTS. THE NEXT CALCULATION WAS TO LOOK AT THE EXPENSES
19 PRETTY MUCH LEFT OVER. WE DIVIDED THAT BETWEEN WHOLESALE
20 AND RETAIL. WE'RE LOOKING AT A WHOLESALE COMPANY VERSUS A
21 RETAIL. INTO THE RETAIL WENT MANY OF THE THINGS THAT WE
22 DISCUSS IN THE RESALE ENVIRONMENT, SO IT'S THINGS AS--IN
23 OUR CALCULATION WE PUT ALL PRODUCT MANAGEMENT, WE PUT
24 ADVERTISING, WE PUT ALL OF THE CUSTOMER SERVICE HANDLING

1 OF THE RETAIL BUSINESS. THEN WE HAD AN AMOUNT OF MONEY
2 THAT WAS LEFT OVER THAT WOULD NOT BE DIRECT, IT WOULD NOT
3 BE THE RESULT OF RETAIL SERVICES, AND IT WOULD NOT BE THE
4 RESULT OF ANY TYPE OF WHOLESALE ACTIVITY. WE THEN JUST
5 SIMPLY DEVELOPED A RELATIONSHIP BETWEEN THE AMOUNT OF
6 DIRECT COSTS AND THAT DOLLAR AMOUNT. SO FOR EACH DOLLAR
7 OF COST I HAVE IN AN UNBUNDLED ELEMENT, I HAD ADDED 8.04
8 PERCENT. I KNOW WE'RE TALKING ABOUT A LOT OF ACCOUNTS,
9 BUT THAT'S BRIEFLY HOW THE METHODOLOGY WAS DONE.

10 Q (MS. TAYLOR) ONE MORE QUESTION BEFORE I GO TO THE
11 AT&T PANEL. JUST GENERALLY, HAVE YOU ASSUMED A DECREASE
12 OF COMMON COSTS AT ALL IN THESE STUDIES DUE TO INCREASED
13 EFFICIENCIES OR INNOVATIONS THAT MAY OCCUR IN THE FUTURE?

14 A (MS. CALDWELL) YES, WE HAVE RECOGNIZED THAT IN THE FACT
15 THAT WE TOOK THE BOOKS OF THE COMPANY AND WE USED THREE
16 YEARS WORTH OF BUDGETED DATA TO MAKE ADJUSTMENTS; AND WHEN
17 YOU DO THAT, YOU ACCOUNT FOR ANY TYPE OF FORCE REDUCTIONS
18 OR PRODUCTIVITY REQUIREMENTS THAT WOULD HAVE BEEN INCLUDED
19 IN THAT BUDGETED DATA, AND WE ALSO DID THE 11.25 PERCENT
20 COST OF MONEY ADJUSTMENT AND USED PROJECTED LIVES ON OUR
21 DEPRECIATION RATES.

22 Q (MS. TAYLOR) I'LL GO TO THE AT&T PANEL NOW AND START
23 OFF A LITTLE DIFFERENTLY AND ASK YOU: IN YOUR OPINION,
24 SHOULD COMMON COSTS DECREASE IN A CHANGING ENVIRONMENT?

1 A (DR. KASERMAN) LET ME RESPOND THAT THE FIRST THING THAT
2 WOULD CHANGE WITH REGARD TO COMMON COSTS IS WHAT I TALKED
3 ABOUT IN MY SUMMARY AND THAT IS THE DIFFERENCE BETWEEN THE
4 PROVISION OF SERVICES AND THE PROVISION OF NETWORK
5 ELEMENTS. GO TO THE DEFINITION OF WHAT COMMON COSTS ARE.
6 THEY STEM FROM THE SHARED USE OF A COMMON INPUT. SERVICES
7 SHARE INPUTS. BUSINESS SERVICE AND RESIDENTIAL SERVICE
8 BOTH USE THE LOOP AND SWITCH. THEY SHARE THOSE, SO THEY
9 HAVE COSTS IN COMMON. NETWORK ELEMENTS, HOWEVER, ARE
10 DISCRETE, PHYSICAL UNITS THAT DO NOT SHARE INPUTS AND
11 CONSEQUENTLY HAVE LITTLE OR NO COMMON COSTS CONTAINED IN
12 THEM. SO I THINK YOU HAVE TO BE VERY, VERY CAREFUL WHEN
13 YOU START DOING WHAT IT SOUNDED TO ME LIKE SHE WAS
14 DESCRIBING AS FULLY ALLOCATED COST METHODOLOGY AND YOU
15 START ALLOCATING SOMETHING AND CALLING IT COMMON COSTS
16 WHEN IN FACT IT'S A COST OF PROVIDING SERVICES THAT'S LEFT
17 OVER AND THEN YOU START ALLOCATING IT TO NETWORK ELEMENTS.
18 WHAT HAPPENS THEN IS YOU PUSH THE PRICE THAT THE
19 COMPETITORS HAVE TO PAY TO GET THE NETWORK ELEMENTS ABOVE
20 THE TRUE COSTS AND THEREFORE YOU DISCOURAGE THEM FROM
21 ENTERING AND THEREFORE YOU DISCOURAGE COMPETITION. YOU
22 COME BACK TO THE BASIC PRINCIPLE OF EITHER PROTECTING
23 COMPETITION OR PROTECTING COMPETITORS AND THAT'S WHAT THIS
24 HEARING IS ALL ABOUT. FROM THIS SIDE OF THE TABLE OVER

1 HERE, YOU HEAR PROTECT THE COMPETITOR, PROTECT BELLSOUTH,
2 PROTECT THEIR EARNINGS, MAKE SURE THEY'RE WHOLE. FROM
3 THIS SIDE OF THE TABLE, YOU'RE GOING TO HEAR PROTECT
4 COMPETITION. IN THIS NEW ENVIRONMENT, PROTECTING
5 COMPETITION IS THE ONLY WAY TO PROTECT CONSUMERS. I'D
6 LIKE TO PASS THIS ON TO SOMEBODY THAT'S JUST DONE SOME
7 SPECIFIC COST STUDY, THOUGH.

8 A (MR. ELLISON) I WOULD JUST LIKE TO ADD TO THAT THAT
9 MS. CALDWELL JUST EXPLAINED THE PROCESS THAT THEY WENT
10 THROUGH TO ADD COMMON COSTS TO THE STUDIES THEY PRESENTED
11 TO THE COMMISSION, AND I THINK FROM HER DEFINITION OR HER
12 DESCRIPTION, YOU KNOW, SHE DESCRIBED THAT SHE HAD LOOKED
13 AT THESE SHARED COSTS. THEY WERE ALL INCLUDED IN THE
14 STUDIES THEY'VE SUBMITTED TO THE COMMISSION. THEY HAVE
15 INCLUDED COMMON COSTS IN THE STUDIES THAT THEY'VE
16 SUBMITTED TO THE COMMISSION. SO THE ORIGINAL TSLRIC
17 STUDIES THAT THEY PUT TOGETHER WHEN I LOOKED AT IT,
18 THEY'VE BEEN INCREASED IN THE NEIGHBORHOOD OF 25 TO 35
19 PERCENT TO COVER WHAT THE COMPANY SAYS ARE THEIR COMMON
20 COSTS AND THEIR SHARED COSTS. ALTHOUGH WE'VE NOT BEEN
21 ABLE TO ANALYZE THOSE COST ADDITIVES, THE SUMMARY THAT I
22 GAVE YOU, WE DID NOT ADJUST THOSE COSTS. IT NEEDS TO BE
23 RECOGNIZED THAT BEFORE LUNCHTIME I TALKED ABOUT THE
24 COMPANY SAID THEY HAD A COST OF A PENNY A MINUTE AND THEY

1 WANTED TO CHARGE 25 CENTS--OR A PENNY A CALL, AND THEY
2 WANTED TO CHARGE 25 CENTS FOR IT. THE PENNY INCLUDED ALL
3 OF THE COMMON COSTS AND SHARED COSTS THAT THE COMPANY HAS
4 ADDED TO ITS COST TO PROVIDING THE SERVICE. SO, I GUESS
5 THE BOTTOM LINE IS, THEY HAVE INCLUDED THOSE COSTS. I
6 DON'T KNOW HOW APPROPRIATE THOSE COSTS ARE, BUT I HAVEN'T
7 DEBATED THEM IN THIS PROCEEDING BECAUSE, EVEN WITH ALL OF
8 THOSE COSTS, THEY GOT THEM UP TO A PENNY AND THEY STILL
9 WANT TO CHARGE 25 CENTS. SO, YOU KNOW, WE'RE SO FAR APART
10 ON PRICES VERSUS WHAT THE COMPANY SAYS THEIR COSTS ARE,
11 INCLUDING COMMON COSTS, THAT THAT IS THE REAL ISSUE.

12 NOW I WOULD JUST LIKE TO RESPOND, IF I
13 COULD, TO MR. SCHEYE TALKED ABOUT THE COST OF MONEY NOT
14 BEING PROFIT. THE COMPANY IS UNDER ALTERNATIVE REGULATION
15 TODAY; BUT IF YOU THINK BACK JUST NOT VERY LONG AGO, THIS
16 COMMISSION AND OTHER COMMISSIONS REGULATED THE COMPANY ON
17 THE BASIS OF RATE BASE REGULATION. THAT MEANT WHAT THE
18 COMMISSION ALLOWED WAS THE COMPANY TO RECOVER ALL OF ITS
19 COSTS OF PROVIDING OFFICE EXPENSES AND THEN WENT THROUGH
20 THE PROCESS OF DETERMINING THE INVESTMENTS REQUIRED TO
21 PROVIDE THOSE SERVICES AND ALLOW THE COMPANY A REASONABLE
22 RETURN ON THE INVESTMENTS. I DON'T KNOW THAT THE
23 COMMISSION HAS EVER LOOKED AT ALL OF THAT AND SAID "I'M
24 GOING TO ALLOW YOU A REASONABLE RETURN ON YOUR INVESTMENT,

1 I'M GOING TO ALLOW YOU TO RECOVER ALL OF YOUR EXPENSES,
2 AND THEN I'M GOING TO GIVE YOU SOME PROFIT ON TOP OF
3 THAT." I JUST DON'T KNOW OF ANY CASE WHERE THE COMMISSION
4 HAS DETERMINED THAT A PROFIT ON TOP OF A REASONABLE RETURN
5 ON INVESTMENT AND EXPENSE IS APPROPRIATE.

6 AND THEN JUST ONE OTHER POINT ON THE \$25
7 AND THE \$18 LOOP RATE, THE TRUTH IS THOSE LOOP RATES WERE
8 SPECIAL SERVICES. THEY WERE APPROVED FOR AN INDUSTRY
9 WHERE BELLSOUTH WAS NOT A COMPETITOR, YET THEY WERE NOT
10 PRICED APPROPRIATELY. THE CONSUMER LOST BECAUSE THE PRICE
11 WAS TOO HIGH, BUT AT LEAST YOU DIDN'T HAVE BELLSOUTH IN
12 THE MARKET COMPETING WITH OTHERS WHERE BELLSOUTH CAN
13 ENGAGE IN A PRICE SQUEEZE. SO EVEN IF THAT \$25 RATE WERE
14 SUSTAINABLE WITHOUT BELLSOUTH IN THE MARKETPLACE, IT'S NOT
15 A REASONABLE RATE WHERE BELLSOUTH IS ONE OF THE
16 COMPETITORS. THANK YOU.

17 Q (MS. TAYLOR) I SEE SOME INDICATION OVER HERE OF A
18 RESPONSE TIME AND I'VE BEEN TOLD THAT WE CAN ALLOW SOME
19 BRIEF RESPONSES THIS AFTERNOON, SO IF YOU HAVE A VERY
20 BRIEF--

21 A (MR. VARNER) I'D JUST MAKE ONE VERY BRIEF RESPONSE,
22 AND THAT IS WITH RESPECT TO THE DIFFERENCE BETWEEN PRICES
23 AND COSTS. THE PRICES THAT WERE BEING REFERRED TO ARE
24 TARIFFED PRICES. THESE ARE PRICES THIS COMMISSION HAS

1 ALREADY LOOKED AT AND THIS COMMISSION HAS ALREADY
2 APPROVED. THEY APPROVED THEM IN THE CONTEXT OF CARRYING
3 OUT ITS DUTIES UNDER THE FORM OF REGULATION OR REGULATING
4 THIS COMPANY AS IT HAS. IT SEEMS THAT THE ISSUE TO BE
5 RAISED OR ATTEMPTING TO BE RAISED IS THAT THOSE PRICES
6 SHOULD ALL BE RELOOKED AT AGAIN AND I CAN'T DEBATE THAT.
7 THAT MAY BE TRUE, IT MAY NOT BE TRUE, BUT I WOULD SUBMIT
8 IT'S NOT THE PURPOSE OF THIS PROCEEDING.

9 A (MR. SCHEYE) I JUST WANTED TO ADD ONE CLARIFICATION.
10 THE \$25 RATE, SPECIAL ACCESS RATE, IT IS COMPETITIVE.
11 IT'S PROBABLY THE MOST COMPETITIVE BUSINESS WE HAVE RIGHT
12 NOW. SO TO THE EXTENT IT'S BEING SUSTAINABLE IN THE
13 MARKET, IT HAS BEEN SUSTAINED IN THE MARKET AS A
14 REASONABLY COMPETITIVE PRICE.

15 Q (MS. TAYLOR) TO FOLLOW UP A COMMENT THAT DR. KASERMAN
16 MADE A MINUTE AGO, I'VE NOTICED IN YOUR TESTIMONY
17 PROTECTION OF THE COMPETITOR VERSUS PROTECTION OF
18 COMPETITION, AND I THINK THE COMMISSION IS INTERESTED
19 ULTIMATELY IN WHAT'S GOING TO HAPPEN FOR THE CONSUMERS OF
20 SOUTH CAROLINA. IF IN FACT THE COMMISSION WERE TO ADOPT
21 AT&T'S RECOMMENDATIONS, WHAT ASSURANCES CAN YOU GIVE THE
22 COMMISSION THAT ULTIMATELY THE COST SAVINGS WOULD BE
23 PASSED ON TO THE CONSUMERS AND THAT YOUR CONSUMERS WOULD
24 BENEFIT FROM INCREASED EFFICIENCIES AND DECREASE OF COSTS?

1 THAT'S A BROAD QUESTION.

2 A (DR. KASERMAN) THE INTERCONNECTION AGREEMENT THAT
3 RESULTS FROM THIS ARBITRATION IS GOING TO PROVIDE--BECAUSE
4 THIS IS AT&T, THEY HAVE THE MOST EXTENSIVE NETWORK, THEY
5 HAVE PROBABLY THE MOST AGGRESSIVE PLANS TO COMPETE IN THIS
6 MARKET, THE INTERCONNECTION AGREEMENT THAT YOU DECIDE
7 SHOULD EXIST IS GOING TO BECOME THE BLUEPRINT FOR
8 COMPETITION IN THIS INDUSTRY ON THE PART OF ALL THE OTHER
9 CARRIERS THAT COME IN--THE MCI'S, THE SPRINTS, AND THE
10 WORLDCOMS AND SO ON THAT COME INTO THIS MARKET. THE
11 ASSURANCE THAT YOU HAVE, I THINK, IS PROVIDED BY THE
12 MARKET AND I ALSO IMAGINE THAT THIS COMMISSION IS NOT
13 GOING TO IGNORE WHAT GOES ON IN THE MARKET EITHER.
14 THERE'S GOING TO BE CONTINUED MONITORING AND I THINK THIS
15 IS GOING TO BE A LONG, DRAWN-OUT PROCESS. BUT I THINK TO
16 GET THE PROCESS STARTED, YOU NEED TO START IT BY GETTING
17 RESELLERS INTO THIS MARKET. AND I HAVE LISTENED NOW FOR A
18 DAY AND A HALF ABOUT YOU CANNOT ENCOURAGE FACILITY-BASED
19 COMPETITION UNLESS YOU DISCOURAGE RESALE. THAT IS EXACTLY
20 THE OPPOSITE OF WHAT YOU NEED TO DO. THE ONLY WAY TO
21 ENCOURAGE FACILITY-BASED CARRIERS TO COME INTO THIS MARKET
22 IS TO FIRST GET THEM INTO THE MARKET ON A RESALE BASIS SO
23 THAT THEY CAN DEVELOP A CUSTOMER BASE THAT WILL THEN
24 REDUCE THE RISK THEY TAKE BY INVESTING IN THE NETWORK

1 FACILITIES. OTHERWISE, IF YOU PROHIBIT RESALE, YOU WILL
2 GET NEITHER RESALE NOR FACILITY-BASED CARRIERS IN THIS
3 MARKET. THE ASSURANCE YOU HAVE I THINK ALSO, LOOK AT THE
4 LONG DISTANCE MARKET AND LOOK AT THE ACCESS CHARGE
5 REDUCTIONS THAT HAVE BEEN PUT IN PLACE OVER THE LAST TEN
6 OR TWELVE YEARS. THERE IS SUBSTANTIAL ECONOMIC EVIDENCE
7 THAT SHOWS THIS. THOSE ACCESS CHARGE REDUCTIONS HAVE BEEN
8 MORE THAN PASSED THROUGH, AND THE "MORE THAN" CAME FROM
9 EFFICIENCY GAINS THROUGH THE COMPETITIVE MARKET FORCES.
10 BUT THE LONG DISTANCE PRICES, AT&T'S AVERAGE REVENUE PER
11 MINUTE OVER THE LAST TWELVE YEARS HAS FALLEN BY MORE THAN
12 THE ACCESS CHARGE REDUCTIONS AND IT'S BEEN BECAUSE OF
13 MARKET FORCES, AND I THINK THE SAME MARKET FORCES WILL
14 APPLY HERE. THE PRICES YOU PROVIDE TO AT&T WILL BE
15 AVAILABLE TO ALL OTHER CARRIERS THAT WANT TO COME INTO
16 THIS MARKET AND BUY THESE UNBUNDLED ELEMENTS. SO, IF AT&T
17 COMES IN--AND, OF COURSE, THEY'RE ALSO CONSTRAINED BY THE
18 PRICES CHARGED BY BELLSOUTH. SO AT&T CANNOT COME IN AND
19 GET THESE UNBUNDLED ELEMENTS AT COST AND NOBODY HERE--LET
20 ME JUST SAY THAT NOBODY HERE IS PROPOSING THAT AT&T BUY
21 UNBUNDLED ELEMENTS AT BELOW COST, BELOW FORWARD LOOKING
22 ECONOMIC COST. I'M NOT ADVOCATING THAT. I DON'T BELIEVE
23 ANYBODY WITH AT&T IS. SO WHEN THEY COME IN AND THEY BUY
24 THESE ELEMENTS AT THE FORWARD LOOKING ECONOMIC COST,

1 INCLUDING A NORMAL PROFIT, THE OTHER CARRIERS CAN COME IN
2 AND THEY ALL HAVE TO COMPETE WITH BELLSOUTH, I DON'T THINK
3 THERE'S A WAY IN THE WORLD THAT THEY CANNOT REFLECT THOSE
4 COSTS IN THE PRICES THEY CHARGE.

5 Q (MS. TAYLOR) AND NOW IF THE BELLSOUTH PANEL WOULD
6 LIKE TO RESPOND TO THE SAME QUESTION, I'D BE HAPPY TO
7 REPEAT IT. YOU MAY WANT TO ELABORATE ON HOW--IF THE
8 COMMISSION ADOPTED YOUR POSITION, HOW YOUR END-USERS WILL
9 BENEFIT.

10 A (MR. VARNER) COULD YOU REPEAT IT, PLEASE? I JUST
11 WANT TO MAKE SURE I HAVE IT RIGHT.

12 Q (MS. TAYLOR) SURE. IF THE COMMISSION WERE TO ADOPT
13 YOUR RECOMMENDATIONS HERE, WHAT BENEFITS WOULD YOUR END-
14 USERS RECEIVE FROM YOUR POSITION?

15 A (MR. VARNER) I THINK THE BENEFITS THEY WOULD RECEIVE
16 WOULD BE MULTIPLE. FIRST, I THINK THE PROPOSALS THAT WE
17 HAVE WOULD HELP ENSURE THAT ALL OF THE CUSTOMERS IN SOUTH
18 CAROLINA BENEFIT FROM COMPETITION, THAT YOU HAVE A SYSTEM
19 THAT IS SET UP THAT PROVIDES FOR REASONABLE UNBUNDLED
20 ELEMENT PRICES SUCH THAT CARRIERS CAN MAKE REASONABLE
21 ECONOMIC CHOICES ABOUT WHETHER OR NOT TO CHOOSE UNBUNDLED
22 ELEMENTS, WHETHER OR NOT TO RESELL, OR WHETHER OR NOT TO
23 BUILD THEIR OWN FACILITIES. I THINK IT'S ALL THREE OF
24 THOSE, ARE THE TYPES OF ACTIVITY THAT YOU WILL WANT TO SET

1 AS A POLICY MATTER TO IMPLEMENT COMPETITION. I NEED TO, I
2 GUESS, STATE VERY, VERY CLEARLY IT IS NOT OUR POSITION TO
3 DISCOURAGE ANY FORM OF COMPETITION. IN FACT, WE BELIEVE
4 THAT ALL THREE FORMS OF COMPETITION THAT I'VE DESCRIBED
5 ARE VIABLE AND NEED TO BE ENCOURAGED--RESALE, FACILITIES
6 BASED, AS WELL AS BUILDING YOUR OWN NETWORK. THAT'S ONE
7 OF THE THINGS THAT WE'VE DONE IN PUTTING THIS TOGETHER AND
8 FOLLOWING THE TENETS OF THE ACT, IS THAT YOU'VE SET UP A
9 PROCESS THAT'S VERY LOGICAL. WITH THE TYPE OF RESALE
10 DISCOUNT THAT WE HAVE IN PLACE, IT REPRESENTS THE COSTS
11 THAT WE'LL AVOID. A CUSTOMER CAN COME IN OR A POTENTIAL
12 CARRIER CAN COME IN. THEY CAN GO INTO BUSINESS WITH NO
13 CAPITAL ESSENTIALLY, JUST SET UP AN OFFICE AND GO IN
14 BUSINESS AND RESELL EVERYTHING THAT WE HAVE. AS TIME GOES
15 ON, THEY DEVELOP THE CAPABILITY, THEY HAVE SOME CUSTOMERS
16 AND THEY DECIDE THAT UNBUNDLED ELEMENTS MAKES MORE SENSE
17 FOR THEM. THEY MAY BUY A SWITCH. THEY NEED OUR UNBUNDLED
18 LOOPS IN ORDER TO CONNECT TO THEIR OWN SWITCH. THAT
19 PROVIDES THEM WITH THE CAPABILITY TO EXTEND COMPETITION A
20 LITTLE FURTHER. AS TIME GOES ON, THEY GET MORE CUSTOMERS.
21 MAYBE THEY GET A SECTION OF COLUMBIA WHERE IT MAKES MORE
22 SENSE FOR THEM TO GO IN AND PUT IN THEIR OWN LOOPS AND
23 THEY WILL DO THAT, BUT THE PRICES THAT WE CHARGE ARE GOING
24 TO HAVE TO BE SET IN AN APPROPRIATE RELATIONSHIP TO EACH

1 OTHER IN ORDER FOR THAT PROGRESSION TO TAKE PLACE. AN
2 EXAMPLE OF HOW IT GETS OUT OF WHACK IS THE RECOMBINATION.
3 IF THEY COULD GET REBUNDLED UNBUNDLED ELEMENTS AT 75
4 PERCENT DISCOUNT, YOU HAVE TO ASK YOURSELF WHY WOULD THEY
5 EVER RESELL ANYTHING. WHY WOULD I RESELL SOMETHING AT A 9
6 PERCENT DISCOUNT WHEN I CAN GET A 75 PERCENT DISCOUNT FOR
7 DOING THE SAME THING? IN ADDITION TO THAT, WHY WOULD I
8 EVER SPEND ANY OF MY OWN MONEY IF IN FACT I CAN GET IT
9 FROM BELL SOUTH AT A PRICE THAT'S BELOW THE COST THAT I CAN
10 PUT IT IN FOR MYSELF?

11 A (MR. SCHEYE) LET ME ADD ONE ITEM; AND I HATE TO RELY
12 ON EXPERIENCE, BUT WE DO HAVE SOME EXPERIENCE IN THIS
13 MARKET AND I THINK IT'S QUITE INSTRUCTIVE. LET ME REFER
14 TO THE STATE OF FLORIDA. RIGHT NOW WE HAVE SIX CARRIERS
15 OPERATIONAL IN THE STATE OF FLORIDA. FOUR OF THEM ARE
16 FACILITY-BASED CARRIERS WHO ARE INVESTING IN THE STATE OF
17 FLORIDA. THEY HAVE THEIR OWN SWITCHES. THEY'RE BUYING
18 UNBUNDLED ELEMENTS FROM US. WE HAVE TWO RESELLERS, BOTH
19 RELATIVELY NICHE MARKET PLAYERS AND THEY WILL ADMIT THAT
20 THEMSELVES. THEY ARE SEPARABLE MARKETS. YES, SOME OF THE
21 FACILITY-BASED CARRIERS WILL RESELL TO CERTAIN CUSTOMERS
22 IN CERTAIN AREAS, BUT THE MARKET WILL ALLOW IN FLORIDA
23 RIGHT NOW IT APPEARS ON A FACILITY BASIS AS WELL AS A
24 RESALE BASIS BASED ON SEPARATE BUSINESS CASES, SEPARATE

1 OPPORTUNITIES, SEPARATE MARKETS, WHATEVER THESE CARRIERS
2 ARE OPERATING IN. NOW CRITICAL TO THAT IS THE
3 RELATIONSHIP WITH THE PRICES, AS MR. VARNER MENTIONED.
4 THEY'RE OPERATING UNDER AGREEMENTS, NEGOTIATED AGREEMENTS,
5 WHICH ARE IN FACT VERY SIMILAR TO THE ARRANGEMENTS WE
6 PROPOSED HERE. WHAT IS THE BIGGEST ABSOLUTE FEAR OF THE
7 FACILITY-BASED CARRIER IN THE STATE OF FLORIDA? IT IS NOT
8 BELLSOUTH COMING IN AND CHARGING TOO MUCH, IT IS NOT
9 BELLSOUTH TRYING TO KEEP THEM OUT OF BUSINESS. THE SIMPLE
10 FACT IS, THEIR BIGGEST CONCERN IS THEY'VE SUNK MONEY IN
11 THE STATE OF FLORIDA, THEY'VE INVESTED, THEY WANT TO EARN
12 ON THAT MONEY, THEY WANT TO MAKE MONEY. IF TOO BIG A
13 RESALE DISCOUNT IS PROVIDED, THEY KNOW THEY LOSE. THEY
14 WILL BE OUT OF BUSINESS. THAT IS THEIR LARGEST FEAR AND
15 THAT'S WHY RECOMBINATION, LARGE RESALE DISCOUNTS, ARE THE
16 BIGGEST THING THAT THEY KNOW THEY CAN'T CONTROL BECAUSE
17 IT'S UP TO REGULATORY PROCESSES AND NEGOTIATIONS. BUT
18 WITHOUT A DOUBT, THAT'S THEIR LARGEST CONCERN. THEY'RE
19 CONFIDENT THEY CAN COMPETE WITH US IN THE STATE OF FLORIDA
20 ON A FACILITY BASIS WITHOUT RESALE IF THEY HAVE TO AND
21 THAT'S WHAT THEY'RE DOING RIGHT NOW, AND WE EXPECT THE
22 SAME THING TO OCCUR HERE. THANK YOU.

23 Q (COMMISSIONER BRADLEY) I'VE GOT A QUESTION. HOW DO THE
24 PRICES OF THE FACILITY-BASED CARRIERS RELATE TO YOUR

1 PRICES--

2 A (MR. SCHEYE) TYPICALLY AGAIN--

3 Q (COMMISSIONER BRADLEY) IN FLORIDA?

4 A (MR. SCHEYE) IN FLORIDA. WHEN WE'VE EXPERIENCED
5 THEIR ENTRY, FIRST OF ALL, IS PREDOMINANTLY THE BUSINESS
6 MARKET, THE MIDDLE-SIZED BUSINESS MARKET. WHAT WE'RE
7 BEING TOLD AT LEAST BY THE CUSTOMERS AND WHAT HAVE YOU,
8 THEY'RE COMING IN UNDER OUR PRICES IN ESSENTIALLY EVERY
9 INSTANCE. WE HAVE LITTLE EXPERIENCE BETWEEN OURSELVES AND
10 SPRINT IN ORLANDO WHERE WE HANDLE PART AND THEY HANDLE
11 PART AND WE'RE NOT COMPETING WITH EACH OTHER AND WE KNOW
12 SPRINT IS UNDERCUTTING OUR PRICES IN OUR TERRITORY. SO
13 THEY ARE COMING IN BELOW OUR PRICES IN A GENERAL WAY. I
14 DON'T KNOW SPECIFICS TO THEIR CUSTOMERS, BUT IN GENERAL
15 THAT'S THE SITUATION.

16 A (MR. GILLAN) EXCUSE ME. AT SOME POINT I'M EXPECTING
17 THAT THIS ISSUE OF NETWORK--COMBINING ELEMENTS BY
18 INGREDIENTS IS GOING TO BE A QUESTION, AND I CAN WITHHOLD
19 MY COMMENTS UNTIL THEN IF THAT WILL MAKE YOUR FLOW GO MORE
20 SMOOTHLY; OR SINCE BELLSOUTH HAS RAISED IT AT THIS
21 JUNCTURE, I CAN TRY TO RESPOND TO MR. VARNER. I WOULD
22 LIKE TO DO WHATEVER IS YOUR PLEASURE, WHICHEVER WORKS OUT
23 BETTER FOR YOUR SCHEDULE.

24 Q (MS. TAYLOR) I DID NOTICE THAT IT WAS RAISED AND IT